

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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East Marshall Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Mike Strawn	President	2006
Dave Scott	Vice-President	2007
Tim Bennett	Board Member	2005
Connie Allen	Board Member	2005
Leroy Kivett	Board Member	2006

Board of Education (After September 2005 Election)		
Mike Strawn	President	2006
Dave Scott	Vice-President	2007
Robert Thomas	Board Member	2008
Connie Allen	Board Member	2008
Steve Edwards	Board Member (appointed)	2006
Leroy Kivett	Board Member (resigned)	2006

School Officials

Dr. Alan Meyer	Superintendent	2006
Nancy Burchland	Business Manager	2006
Cartwright, Druker And Ryden	Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Marshall Community School District, Gilman, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

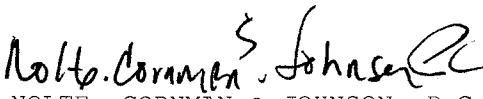
In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2006 on our consideration of East Marshall Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 37 through 38 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Marshall Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Marshall Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,821,909 in fiscal 2005 to \$7,018,627 in fiscal 2006, while General Fund expenditures increased from \$6,326,784 in fiscal 2005 to \$6,789,807 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$790,542 in fiscal 2005 to \$1,023,548 in fiscal 2006, a 29.5% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in tuition and state sources in fiscal 2006. The increase in expenditures was due primarily to an increase in the instruction functional area and the support services area.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of East Marshall Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report East Marshall Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which East Marshall Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
East Marshall Community School District Annual Financial Report

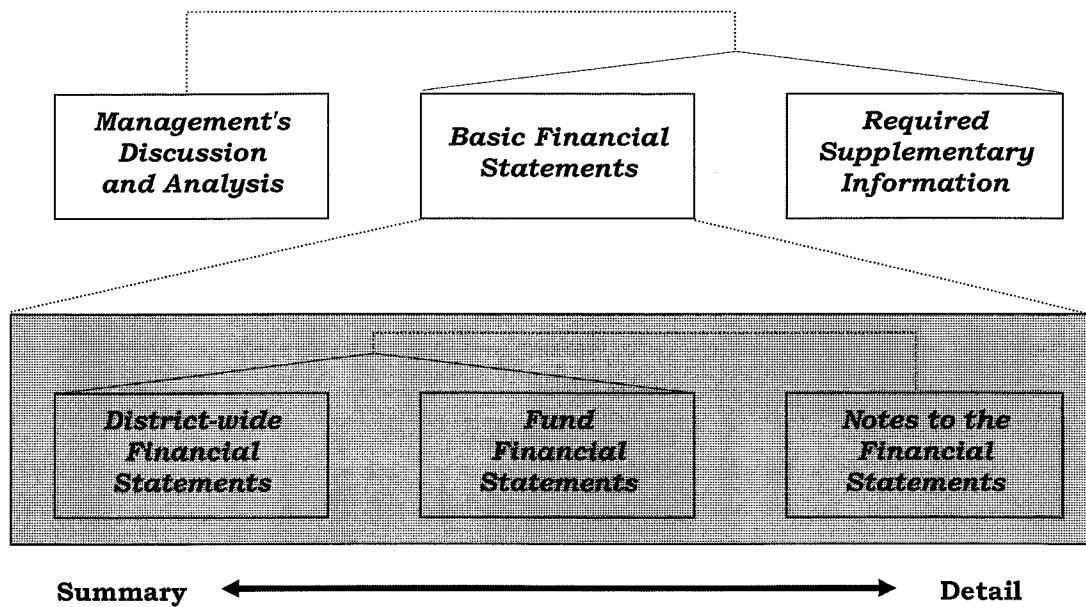


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund..

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 10,805,625	5,680,980	84,169	98,189	10,889,794	5,779,169	88.43%
Capital assets	3,683,957	2,374,514	22,512	26,173	3,706,469	2,400,687	54.39%
Total assets	14,489,582	8,055,494	106,681	124,362	14,596,263	8,179,856	78.44%
Long-term obligations	6,012,964	639,012	0	0	6,012,964	639,012	840.98%
Other liabilities	4,086,257	3,866,372	32,365	32,678	4,118,622	3,899,050	5.63%
Total liabilities	10,099,221	4,505,384	32,365	32,678	10,131,586	4,538,062	123.26%
Net assets:							
Invested in capital assets, net of related debt	3,524,657	2,374,514	22,512	26,173	3,547,169	2,400,687	47.76%
Restricted	351,370	732,043	0	0	351,370	732,043	-52.00%
Unrestricted	514,334	443,553	51,804	65,511	566,138	509,064	11.21%
Total net assets	\$ 4,390,361	3,550,110	74,316	91,684	4,464,677	3,641,794	22.60%

The District's combined net assets increased by 22.6%, or \$822,883, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$380,673, or 52% under the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$57,074, or 11.21%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,313,613	1,049,986	163,993	158,003	1,477,606	1,207,989	22.32%
Operating grants, contributions and restricted interest	1,039,656	764,882	155,580	142,347	1,195,236	907,229	31.75%
General revenues:							
Property tax	2,754,256	2,834,350	0	0	2,754,256	2,834,350	-2.83%
Local option sales and services tax	401,555	387,549	0	0	401,555	387,549	3.61%
Unrestricted state grants	2,770,976	2,667,436	0	0	2,770,976	2,667,436	3.88%
Other	314,510	73,664	1,313	630	315,823	74,294	325.10%
Total revenues	8,594,566	7,777,867	320,886	300,980	8,915,452	8,078,847	10.36%
Program expenses:							
Governmental activities:							
Instructional	4,541,674	4,307,361	0	0	4,541,674	4,307,361	5.44%
Support services	2,687,550	2,491,018	0	0	2,687,550	2,491,018	7.89%
Non-instructional programs	7,444	10,904	338,254	314,634	345,698	325,538	6.19%
Other expenses	517,647	391,363	0	0	517,647	391,363	32.27%
Total expenses	7,754,315	7,200,646	338,254	314,634	8,092,569	7,515,280	7.68%
Changes in net assets	840,251	577,221	(17,368)	(13,654)	822,883	563,567	46.01%
Beginning net assets	3,550,110	2,972,889	91,684	105,338	3,641,794	3,078,227	18.31%
Ending net assets	\$ 4,390,361	3,550,110	74,316	91,684	4,464,677	3,641,794	22.60%

Property tax and unrestricted state grants account for 62.1% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89.3% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in operating grants, contributions and restricted interest. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

Governmental Activities

Revenues for governmental activities were \$8,594,566 and expenses were \$7,754,315. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,541,674	2,413,420
Support services	2,687,550	2,681,487
Non-instructional programs	7,444	7,444
Other expenses	517,647	298,695
Totals	<u>\$ 7,754,315</u>	<u>5,401,046</u>

- The cost financed by users of the District's programs was \$1,313,613.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,039,656.
- The net cost of governmental activities was financed with \$2,754,256 in property tax, \$401,555 in local option sales and services tax, \$2,770,976 in unrestricted state grants and \$295,066 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$320,886 and expenses were \$338,254. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the East Marshall Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$6,472,858, above last year's ending fund balances of a \$1,527,169. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the District selling bonds.

Governmental Fund Highlights

The District's improving General Fund financial position is the product of many factors:

- Open Enrollments into the district continued to increase in 2005-06 resulting in a revenue increase of \$236,336.
- Interest revenue increased due to improving interests rates.

Other Governmental Funds:

- On March 20, 2006 the District was awarded \$500,000 from the Iowa Demonstration Construction grant Program for the high school addition project.
- A bid of \$5,419,000 from general contractor Garling Construction was accepted for the high school construction project. Work on the project began in April, 2006. On June 30, 2006, \$1,292,282 of the project was considered complete
- The fund balance in the Schools Infrastructure Local Option Sales Tax Fund increased in 2005-06 due to higher sales tax and accumulating interest on the fund balance. The District is using the sales tax revenue to abate property taxes in the debt service levy. The first debt service payment was made in 2005-06 using \$52,074 from property tax collections and \$320,331 from sales tax.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$91,684 at June 30, 2005 to \$74,316 at June 30, 2006, representing a decrease of 18.9%. For fiscal 2006, the District saw an increase in expenditures as well as an increase in revenues.

- The District raised the price charged for meals in the 2006-07 school year to offset the Nutrition Fund's declining fund balance.

BUDGETARY HIGHLIGHTS

The District's revenues were \$988,366 more than budgeted revenues, a variance of 12.49%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services, non-instructional programs and other expenditures functional areas due to the timing of expenditures paid at year end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3,706,469, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 54.39% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$258,055.

The original cost of the District's capital assets was \$7,637,748. Governmental funds account for \$7,504,503 with the remainder of \$133,245 in the Proprietary funds.

The largest change in capital asset activity during the year occurred construction in progress category. The District's construction in progress totaled \$1,292,282 at June 30, 2006, compared to no construction in progress at June 30, 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 115,374	110,574	0	0	115,374	110,574	4.34%
Construction in progress	1,292,282	0	0	0	1,292,282	0	100.00%
Buildings	1,742,681	1,816,109	0	0	1,742,681	1,816,109	-4.04%
Land improvements	78,949	91,140	0	0	78,949	91,140	-13.38%
Machinery and equipment	454,671	356,691	22,512	26,173	477,183	382,864	24.64%
Total	<u>\$ 3,683,957</u>	<u>2,374,514</u>	<u>22,512</u>	<u>26,173</u>	<u>3,706,469</u>	<u>2,400,687</u>	54.39%

Long-Term Debt

At June 30, 2006, the District had \$6,012,964 in long-term debt outstanding. This represents an increase of 841% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had compensated absences payable of \$42,840 at June 30, 2006.

The District had early retirement payable of \$780,124 at June 30, 2006.

The District had general obligation bonds payable of \$5,190,000 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General Obligation Bonds	\$ 5,190,000	0	100%
Compensated absences	42,840	42,072	1.8%
Early retirement	780,124	596,940	30.7%
Totals	<u>\$ 6,012,964</u>	<u>639,012</u>	841.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- On April 26, 2005, voters of the District passed a \$5,380,000 bond issue to build an addition to and to remodel the high school in LeGrand. The south addition has a projected completion date of December 20, 2006 and the north addition has a projected completion date of August 1, 2007. At this time the project is on time and under budget.

- The instructional support program allows the district to generate 10% of the total regular program district cost for the budget year for additional or enhanced current educational programs. The District can participate in the instructional support program by either holding an election, which allows participation for ten years, or by board resolution, which allows participation for five years. The East Marshall School Board implemented the program by resolution for a period of five years starting with 2002-03. The program is funded with a combination of state aid, property tax and income surtax. Income surtax is paid in the year following the year it is levied. On July 10, 2006, the board adopted a resolution to continue participation in the instructional support program for an additional five-year period through June 30, 2012.

Fiscal Year	Instructional Support Levy	ISL State Aid	Income Surtax	Property Tax
2006-07	\$316,157	\$27,797	\$273,019	\$15,341
2005-06	\$318,391	\$29,809	\$278,567	\$10,015
2004-05	\$322,049	\$31,732	\$282,711	\$7,606
2003-04	\$329,366	\$34,096	\$263,457	\$31,813

- The District's certified enrollment decreased slightly in 2006, but, the District continues to have increasing open enrolled students. In 2005-06 open enrollment revenues were \$957,253.

Fiscal Year	Enrolled In	Enrolled Out
2006-2007	193	49.7
2005-2006	181	50.8
2004-2005	140	43.5
2003-2004	120	43.7

- Property tax values continue to increase slightly. The PPEL and PERL levies, fixed dollar levies, will generate more dollars because of the increased valuation. Increasing valuations allow the District to lower the property tax rate for the General Fund, Management Fund, and Debt Service Fund.
- On March 20, 2006, the Board approved a revised Early Retirement Policy that provides early retirement benefits based on years of service to the district as follows:
 1. Insurance benefit only will apply with 15 years of service,
 2. 36 monthly payments with 20 years of service, plus insurance,
 3. 48 monthly payments with 25 years of service, plus insurance,
 4. 60 monthly payments with 30 years of service, plus insurance.

-
- On February 23, 2006 the District was notified of approval for incremental financing of \$338, 676 through the Iowa Energy Bank Program. This financing will be used to pay for geothermal heating in the new construction at the high school. The loan will be repaid with energy savings in the general operating fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nancy Burchland, District Business Manager, East Marshall Community School District, 225 South Elm Street, Gilman, Iowa, 50106.

BASIC FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 343,522	66,132	409,654
Other	7,108,255	0	7,108,255
Receivables:			
Property tax:			
Delinquent	410,589	0	410,589
Succeeding year	2,419,397	0	2,419,397
Income surtax	278,567	0	278,567
Accrued interest - ISCAP (Note 4)	107	0	107
Due from other governments	245,188	0	245,188
Inventories	0	18,037	18,037
Capital assets, net of accumulated depreciation (Note 5)	3,683,957	22,512	3,706,469
TOTAL ASSETS	14,489,582	106,681	14,596,263
LIABILITIES			
Accounts payable	587,646	2,665	590,311
Salaries and benefits payable	697,040	25,185	722,225
ISCAP warrants payable (Note 4)	344,000	0	344,000
ISCAP accrued interest payable (Note 4)	85	0	85
ISCAP unamortized premium	2,618	0	2,618
Accrued interest payable	35,471	0	35,471
Deferred revenue:			
Succeeding year property tax	2,419,397	0	2,419,397
Other	0	4,515	4,515
Long-term liabilities (Note 6):			
Portion due within one year:			
Compensated absences	42,840	0	42,840
Early retirement payable	140,337	0	140,337
General obligation bonds payable	185,000	0	185,000
Portion due after one year:			
General obligation bonds payable	5,005,000	0	5,005,000
Early retirement payable	639,787	0	639,787
TOTAL LIABILITIES	10,099,221	32,365	10,131,586
NET ASSETS			
Investment in capital assets, net of related debt	3,524,657	22,512	3,547,169
Restricted for:			
Talented and gifted	4,982	0	4,982
Salary improvement program	794	0	794
Physical plant and equipment levy	213,362	0	213,362
Public equipment recreation levy	31,984	0	31,984
Other special revenue purposes	100,248	0	100,248
Unrestricted	514,334	51,804	566,138
TOTAL NET ASSETS	\$ 4,390,361	74,316	4,464,677

SEE NOTES TO FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,929,588	692,570	818,079	(1,418,939)	0	(1,418,939)
Special instruction	889,705	391,879	2,625	(495,201)	0	(495,201)
Other instruction	722,381	223,101	0	(499,280)	0	(499,280)
	<u>4,541,674</u>	<u>1,307,550</u>	<u>820,704</u>	<u>(2,413,420)</u>	<u>0</u>	<u>(2,413,420)</u>
Support services:						
Student services	253,518	0	0	(253,518)	0	(253,518)
Instructional staff services	328,213	0	0	(328,213)	0	(328,213)
Administration services	803,054	0	0	(803,054)	0	(803,054)
Operation and maintenance of plant services	923,779	0	0	(923,779)	0	(923,779)
Transportation services	378,986	6,063	0	(372,923)	0	(372,923)
	<u>2,687,550</u>	<u>6,063</u>	<u>0</u>	<u>(2,681,487)</u>	<u>0</u>	<u>(2,681,487)</u>
Non-instructional programs:						
Food service operations	3,974	0	0	(3,974)	0	(3,974)
Community service operations	3,470	0	0	(3,470)	0	(3,470)
	<u>7,444</u>	<u>0</u>	<u>0</u>	<u>(7,444)</u>	<u>0</u>	<u>(7,444)</u>
Other expenditures:						
Long-term debt interest	217,876	0	0	(217,876)	0	(217,876)
AEA flowthrough	218,952	0	218,952	0	0	0
Depreciation(unallocated) *	80,819	0	0	(80,819)	0	(80,819)
	<u>517,647</u>	<u>0</u>	<u>218,952</u>	<u>(298,695)</u>	<u>0</u>	<u>(298,695)</u>
Total governmental activities	<u>7,754,315</u>	<u>1,313,613</u>	<u>1,039,656</u>	<u>(5,401,046)</u>	<u>0</u>	<u>(5,401,046)</u>
Business-Type activities:						
Non-instructional programs:						
Nutrition services	338,254	163,993	155,580	0	(18,681)	(18,681)
Total business-type activities	<u>338,254</u>	<u>163,993</u>	<u>155,580</u>	<u>0</u>	<u>(18,681)</u>	<u>(18,681)</u>
Total	<u>\$ 8,092,569</u>	<u>1,477,606</u>	<u>1,195,236</u>	<u>(5,401,046)</u>	<u>(18,681)</u>	<u>(5,419,727)</u>
General Revenues:						
Local tax for:						
General purposes				\$ 2,533,861	0	2,533,861
Public equipment recreation levy				20,036	0	20,036
Capital outlay				148,414	0	148,414
Local option sales and services tax				401,555	0	401,555
Debt service				51,945	0	51,945
Unrestricted state grants				2,770,976	0	2,770,976
Unrestricted investment earnings				295,066	1,313	296,379
Other revenue				16,693	0	16,693
Gain on disposal of asset				2,751	0	2,751
Total general revenues				<u>6,241,297</u>	<u>1,313</u>	<u>6,242,610</u>
Changes in net assets				840,251	(17,368)	822,883
Net assets beginning of year				3,550,110	91,684	3,641,794
Net assets end of year				<u>\$ 4,390,361</u>	<u>74,316</u>	<u>4,464,677</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP (Note 4)	\$ 343,522	0	0	343,522
Other	1,505,342	5,220,794	378,705	7,104,841
Receivables:				
Property tax:				
Delinquent	41,360	359,316	9,913	410,589
Succeeding year	1,916,450	0	502,947	2,419,397
Income surtax	278,567	0	0	278,567
Accrued interest - ISCAP (Note 4)	107	0	0	107
Due from other governments	245,188	0	0	245,188
TOTAL ASSETS	\$ 4,330,536	5,580,110	891,565	10,802,211
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 68,336	517,305	2,005	587,646
Salaries and benefits payable	696,932	0	108	697,040
ISCAP warrants payable (Note 4)	344,000	0	0	344,000
ISCAP accrued interest payable (Note 4)	85	0	0	85
ISCAP unamortized premium	2,618	0	0	2,618
Deferred revenue:				
Succeeding year property tax	1,916,450	0	502,947	2,419,397
Income surtax	278,567	0	0	278,567
Total liabilities	3,306,988	517,305	505,060	4,329,353
Fund balances:				
Reserved for:				
Talented and gifted	4,982	0	0	4,982
Salary improvement program	794	0	0	794
Debt service	0	0	3,366	3,366
Unreserved:				
General	1,017,772	0	0	1,017,772
Management	0	0	37,545	37,545
Capital Projects	0	5,062,805	0	5,062,805
Physical plant and equipment levy	0	0	213,362	213,362
Public equipment recreation levy	0	0	31,984	31,984
Other special revenue purposes	0	0	100,248	100,248
Total fund balances	1,023,548	5,062,805	386,505	6,472,858
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,330,536	5,580,110	891,565	10,802,211

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 17)	\$ 6,472,858
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	3,683,957
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	278,567
Blending of the Internal Service Fund to be reflected on an entity-wide basis.	3,414
Accrued interest payable on long-term liabilities is not due payable in the current period and, therefore, is not reported liability in the governmental funds.	(35,471)
Long-term liabilities, including compensated absences, general obligation bonds and early retirement, are not due and payable in the liabilities in the current period and, therefore, are not reported as governmental funds.	<u>(6,012,964)</u>
Net assets of governmental activites (page 15)	<u><u>\$ 4,390,361</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,288,142	401,555	470,258	3,159,955
Tuition	1,084,449	0	0	1,084,449
Other	127,365	219,785	177,079	524,229
State sources	3,289,813	288,544	3,418	3,581,775
Federal sources	228,858	0	0	228,858
Total revenues	7,018,627	909,884	650,755	8,579,266
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,611,126	0	127,577	2,738,703
Special instruction	889,705	0	0	889,705
Other instruction	561,269	0	161,112	722,381
	4,062,100	0	288,689	4,350,789
Support services:				
Student services	252,763	0	755	253,518
Instructional staff services	294,521	0	33,692	328,213
Administration services	768,547	11,500	20,735	800,782
Operation and maintenance of plant services	749,863	0	194,522	944,385
Transportation services	442,411	0	26,461	468,872
	2,508,105	11,500	276,165	2,795,770
Non-instructional programs				
Food service operations	0	0	2,354	2,354
Community service operations	650	0	2,820	3,470
	650	0	5,174	5,824
Other expenditures:				
Facilities acquisitions	0	1,276,429	12,852	1,289,281
Long-term debt:				
Principal	0	0	190,000	190,000
Interest and fiscal charges	0	0	182,405	182,405
AEA flowthrough	218,952	0	0	218,952
	218,952	1,276,429	385,257	1,880,638
Total expenditures	6,789,807	1,287,929	955,285	9,033,021
Excess (deficiency) of revenues over (under) expenditures	228,820	(378,045)	(304,530)	(453,755)
Other financing sources (uses):				
Transfer in	1,635	0	356,962	358,597
Transfer out	0	(320,331)	(38,266)	(358,597)
Gain on disposal of asset	2,551	0	200	2,751
Sale of bonds	0	5,380,000	0	5,380,000
Other revenue	0	16,693	0	16,693
Total other financing sources	4,186	5,076,362	318,896	5,399,444
Net change in fund balances	233,006	4,698,317	14,366	4,945,689
Fund balance beginning of year	790,542	364,488	372,139	1,527,169
Fund balance end of year	\$ 1,023,548	5,062,805	386,505	6,472,858

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 19)	\$	4,945,689
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*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 1,427,218	
Depreciation expense	(117,775)	1,309,443

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(4,144)
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Net change in Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis.		(1,314)
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Proceeds of long-term debt liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Issued	\$ (5,380,000)	
Repaid	190,000	(5,190,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(35,471)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	(183,184)	
Compensated absences	(768)	(183,952)

Changes in net assets of governmental activities (page 16)	\$	840,251
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SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 66,132	3,414
Inventories	18,037	0
Capital assets, net of accumulated depreciation(Note 5)	22,512	0
TOTAL ASSETS	106,681	3,414
LIABILITIES		
Accounts payable	2,665	0
Salaries and benefits payable	25,185	0
Deferred revenue:		
Other	4,515	0
TOTAL LIABILITIES	32,365	0
NET ASSETS		
Investment in capital assets, net of related debt	22,512	0
Unrestricted	51,804	3,414
TOTAL NET ASSETS	\$ 74,316	3,414

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 163,993	20,417
TOTAL OPERATING REVENUES	163,993	20,417
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	145,651	0
Benefits	32,392	21,731
Services	1,285	0
Supplies	155,265	0
Depreciation	3,661	0
TOTAL OPERATING EXPENSES	338,254	21,731
OPERATING LOSS	(174,261)	(1,314)
NON-OPERATING REVENUES:		
State sources	5,172	0
Federal sources	150,408	0
Interest income	1,313	0
TOTAL NON-OPERATING REVENUES	156,893	0
Change in net assets	(17,368)	(1,314)
Net assets beginning of year	91,684	4,728
Net assets end of year	\$ 74,316	3,414

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 164,679	20,417
Cash received from miscellaneous	386	0
Cash payments to employees for services	(179,464)	(21,731)
Cash payments to suppliers for goods or services	(132,303)	0
Net cash used in operating activities	(146,702)	(1,314)
Cash flows from non-capital financing activities:		
State grants received	5,172	0
Federal grants received	127,596	0
Net cash provided by non-capital financing activities	132,768	0
Cash flows from investing activities:		
Interest on investments	1,313	0
Net cash provided by investing activities	1,313	0
Net decrease in cash and cash equivalents	(12,621)	(1,314)
Cash and cash equivalents at beginning of year	78,753	4,728
Cash and cash equivalents at end of year	\$ 66,132	3,414
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (174,261)	(1,314)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	22,812	0
Depreciation	3,661	0
Decrease in inventories	1,399	0
Increase in accounts payable	36	0
Decrease in salaries and benefits payable	(1,421)	0
Increase in deferred revenue	1,072	0
Net cash used in operating activities	\$ (146,702)	(1,314)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 66,132	3,414

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$22,812.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Private Purpose Trust Scholarship
Assets	
Cash and pooled investments	\$ 36,926
Total assets	<u>36,926</u>
Liabilities	
Total liabilities	<u>0</u>
Net assets	
Reserved for scholarships	<u>\$ 36,926</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006

	Private Purpose Trust <u>Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ 1,298
Total additions	<u>1,298</u>
Deductions:	
Instruction:	
Scholarships awarded	<u>789</u>
Change in net assets	509
Net assets beginning of year	<u>36,417</u>
Net assets end of year	<u>\$ 36,926</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The East Marshall Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Le Grand, Gilman, Laurel and Ferguson, Iowa, and the predominate agricultural territory in Marshall, Tama, Poweshiek and Jasper Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, East Marshall Community School District has included all funds, organizations, Account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The East Marshall Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall, Tama, Poweshiek and Jasper Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental

Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a

1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support, non-instruction and other functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Iowa Schools Joint Investment Trust	<u>\$ 5,423,822</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 320,331
Property Plant and Equipment Levy	Management	5,000
Property Plant and Equipment Levy	Trust	31,565
General	Management	1,635
Property Plant and Equipment Levy	Activity	66
Total		<u>\$ 358,597</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 343,522	107	344,000	85

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount.

ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	50,000	50,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.900%
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 110,574	4,800	0	115,374
Construction in progress	0	1,292,282	0	1,292,282
Total capital assets not being depreciated	110,574	4,800	0	1,407,656
Capital assets being depreciated:				
Buildings	3,800,591	0	8,660	3,791,931
Land improvements	243,819	0	0	243,819
Machinery and equipment	1,922,301	277,593	138,797	2,061,097
Total capital assets being depreciated	5,966,711	277,593	147,457	6,096,847
Less accumulated depreciation for:				
Buildings	1,984,482	73,428	8,660	2,049,250
Land improvements	152,679	12,191	0	164,870
Machinery and equipment	1,565,610	168,775	127,959	1,606,426
Total accumulated depreciation	3,702,771	254,394	136,619	3,820,546
Total capital assets being depreciated, net	2,263,940	23,199	10,838	2,276,301
Governmental activities capital assets, net	\$ 2,374,514	27,999	10,838	3,683,957

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 133,764	0	519	133,245
Less accumulated depreciation	107,591	3,661	519	110,733
Business-type activities capital assets, net	<u>\$ 26,173</u>	<u>(3,661)</u>	<u>0</u>	<u>22,512</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 83,067
Support services:	
Operation and maintenance of plant	5,635
Transportation	80,073
	<u>168,775</u>
Unallocated depreciation	<u>85,619</u>
Total governmental activities depreciation expense	<u>\$ 254,394</u>
Business-type activities:	
Food service operations	\$ 3,661
Total business-type activities depreciation expense	<u>\$ 3,661</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	0	5,380,000	190,000	5,190,000	185,000
Compensated absences	\$ 42,072	42,840	42,072	42,840	42,840
Early retirement	596,940	308,007	124,823	780,124	140,337
Total	<u>\$ 639,012</u>	<u>350,847</u>	<u>166,895</u>	<u>6,012,964</u>	<u>183,177</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue July 1, 2005		
	Interest Rates	Principal	Interest
2007	3.88	% \$ 185,000	212,826
2008	4.50	195,000	205,658
2009	4.50	200,000	196,883
2010	4.50	210,000	187,883
2011	4.38	220,000	178,433
2012-2016	3.60-4.38	1,230,000	742,326
2017-2021	3.80-4.00	1,510,000	481,228
2022-2025	4.05-4.20	1,440,000	152,163
Total		<u>\$ 5,190,000</u>	<u>2,357,400</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The retiree may maintain their membership in the group health insurance. The District will pay the retiree a monthly payment beginning in September following retirement through the month when the retiree reaches 65 years of age of .01 times the salary(excluding Phase I, II and III money or extra curricular salary) received during the year prior to retirement. Should the retiree die before reaching age 65, the monthly payment will be continued to the retiree's surviving spouse until the retiree would have reached 65 years of age, or such payments may be computed to an agreed lump sum payable to the spouse or the retiree's estate. The employee shall not be on disability leave at the time of retirement. Early retirement benefits paid during the year ended June 30, 2002, totaled \$60,182. The cost of early retirement payments expected to be liquidated currently are recorded as a liability of the Special Revenue Fund, Management Account. A liability has been recorded in the General Long-Term Debt Account Group representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$239,694, \$232,097, and \$230,602 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association(ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$720,679.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw.

East Marshall Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$218,952 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitment

The District has entered into various contracts totaling \$5,276,261 for the renovation of the school. As of June 30, 2006, costs of \$1,292,282 had been incurred against the contracts. The balance of \$3,983,979 remaining at June 30, 2006 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTAL INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund	Fund	Total	Original	Final	Actual
	Actual	Actual	Actual			Variance
Revenues:						
Local sources	\$ 4,768,633	165,306	4,933,939	4,286,098	4,286,098	647,841
State sources	3,581,775	5,172	3,586,947	3,300,288	3,300,288	286,659
Federal sources	228,858	150,408	379,266	325,400	325,400	53,866
Total revenues	8,579,266	320,886	8,900,152	7,911,786	7,911,786	988,366
Expenditures:						
Instruction	4,350,789	0	4,350,789	4,351,276	4,351,276	487
Support services	2,795,770	0	2,795,770	2,565,847	2,695,000	(100,770)
Non-instructional programs	5,824	338,254	344,078	335,301	335,301	(8,777)
Other expenditures	1,880,638	0	1,880,638	1,249,659	1,789,558	(91,080)
Total expenditures	9,033,021	338,254	9,371,275	8,502,083	9,171,135	(200,140)
Excess(deficiency) of revenues over(under) expenditures	(453,755)	(17,368)	(471,123)	(590,297)	(1,259,349)	(788,226)
Other financing sources, net	5,399,444	0	5,399,444	0	0	(5,399,444)
Excess(deficiency) of revenues over(under) expenditures	4,945,689	(17,368)	4,928,321	(590,297)	(1,259,349)	(6,187,670)
Balance beginning of year	1,527,169	91,684	1,618,853	823,397	823,397	795,456
Balance end of year	\$ 6,472,858	74,316	6,547,174	233,100	(435,952)	6,983,126

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$669,052.

During the year ended June 30, 2006, expenditures in the support services, non-instructional and other expenditure functional areas exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds						Debt Service	Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Public Recreation Equipment Levy	Expendable Trust	Total Special Revenue		
ASSETS								
Cash and pooled investments	\$ 33,347	100,882	210,233	31,562	210	376,234	2,471	378,705
Receivables:								
Property tax:								
Current year delinquent	5,267	0	3,129	422	0	8,818	1,095	9,913
Succeeding year	275,000	0	153,500	20,722	0	449,222	53,725	502,947
TOTAL ASSETS	\$ 313,614	100,882	366,862	52,706	210	834,274	57,291	891,565
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts payable	\$ 1,069	736	0	0	0	1,805	200	2,005
Salaries and benefits payable	0	108	0	0	0	108	0	108
Deferred revenue:								
Succeeding year property tax	275,000	0	153,500	20,722	0	449,222	53,725	502,947
	276,069	844	153,500	20,722	0	451,135	53,925	505,060
Fund equity:								
Fund balances:								
Unreserved:								
Undesignated	37,545	100,038	213,362	31,984	210	383,139	3,366	386,505
Total fund balances	37,545	100,038	213,362	31,984	210	383,139	3,366	386,505
TOTAL LIABILITIES AND FUND EQUITY	\$ 313,614	100,882	366,862	52,706	210	834,274	57,291	891,565

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds							Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Public Recreation Levy	Expendable Trust	Total Special Revenue	Debt Service	Nonmajor Governmental Funds
REVENUES:								
Local sources:								
Local tax	\$ 249,863	0	148,414	20,036	0	418,313	51,945	470,258
Other	869	160,518	14,667	601	6	176,661	418	177,079
State sources	204	0	121	16	0	341	3,077	3,418
TOTAL REVENUES	250,936	160,518	163,202	20,653	6	595,315	55,440	650,755
EXPENDITURES:								
Current:								
Instruction:								
Regular instruction	127,577	0	0	0	0	127,577	0	127,577
Other instruction		161,112	0	0	0	161,112	0	161,112
Support services:								
Student services	755	0	0	0	0	755	0	755
Instructional staff	260	0	33,432	0	0	33,692	0	33,692
Administration services	20,735	0	0	0	0	20,735	0	20,735
Operation and maintenance of plant services	52,522	0	137,831	4,169		194,522	0	194,522
Student transportation	26,461	0	0	0	0	26,461	0	26,461
Non-instructional programs							0	0
Food service operation	2,354	0	0	0	0	2,354	0	2,354
Community service operations	0	0	0	2,820	0	2,820	0	2,820
Other expenditures:								
Facilities acquisitions	0	0	12,852	0	0	12,852	0	12,852
Long-term debt:								
Principal	0	0	0	0	0	0	190,000	190,000
Interest and fiscal charges	0	0	0	0	0	0	182,405	182,405
TOTAL EXPENDITURES	230,664	161,112	184,115	6,989	0	582,880	372,405	955,285
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER)								
EXPENDITURES	20,272	(594)	(20,913)	13,664	6	12,435	(316,965)	(304,530)
OTHER FINANCING SOURCES(USES):								
Sale of real property	0	0	200	0	0	200	0	200
Transfer in	0	0	36,631	0	0	36,631	320,331	356,962
Transfer out	(6,635)	(66)	0	0	(31,565)	(38,266)	0	(38,266)
Total other financing sources (uses)	(6,635)	(66)	36,831	0	(31,565)	(1,435)	320,331	318,896
EXCESS(DEFICIENCY) OF REVENUES AND OTHER								
FINANCING SOURCES OVER(UNDER) EXPENDITURES	13,637	(660)	15,918	13,664	(31,559)	11,000	3,366	14,366
FUND BALANCE BEGINNING OF YEAR	23,908	100,698	197,444	18,320	31,769	372,139	0	372,139
FUND BALANCE END OF YEAR	\$ 37,545	100,038	213,362	31,984	210	383,139	3,366	386,505

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 6,290	829	1,201	5,918
HS Vocal	3,349	3,274	755	5,868
Spec MS Vocal	0	196	164	32
HS Band	774	1,701	665	1,810
Fine Arts Grant	0	0	0	0
Band Fundraising	0	10,230	7,518	2,712
HS Band Resale	44	7	0	51
Spec MS Band	906	758	836	828
MS Band Resale	104	612	475	241
Athletics	20,212	5,476	4,021	21,667
Athletic Uniforms	7,277	6,541	7,216	6,602
Spec MS Athletics	14,028	11,883	15,544	10,367
Golf	0	407	407	0
Boys Basketball	0	6,452	6,287	165
Football	0	9,046	7,979	1,067
Baseball	952	4,785	5,737	0
Wrestling	0	3,178	2,958	220
Alumni Basketball Uniforms	1,186	0	1,186	0
Girls BB	0	4,026	3,861	165
Volleyball	0	3,687	3,287	400
Softball	680	6,531	6,589	622
Girls Track	0	860	860	0
Kids Benefit	730	839	792	777
Student Pop	0	16,871	16,871	0
Interest	0	2,045	2,045	0
Middle School Fine Arts	8,419	4,300	1,123	11,596
MS Yearbook	0	1,960	1,450	510
Spec MS Art	820	0	406	414
MS Student Council	3,196	4,182	3,588	3,790
MS Activities	3,639	0	2,672	967
High School Fine Arts	10,883	5,850	16,328	405
Class of 2009	66	50	94	22
Class of 2010	1,090	693	1,624	159
Class of 2007	7	12,616	9,483	3,140
Class of 2008	3	0	0	3
HS Yearbook	7,564	8,324	10,942	4,946
Spec HS Art	0	350	(2,344)	2,694
Silk Screening	2,095	5,750	7,486	359
Cheerleaders	0	946	0	946
FFA	245	6,006	5,337	914
National Honor Society	2,869	230	(1,064)	4,163
HS Student Council	3,270	1,220	1,257	3,233
HS Activities	0	1,041	1,041	0
Vending Machine	0	6,766	4,501	2,265
Total	\$ 100,698	160,518	161,178	100,038

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 3,159,955	3,202,645	2,778,213	2,456,190
Tuition	1,084,449	815,148	655,870	531,116
Other	524,229	279,311	295,208	307,592
State sources	3,581,775	3,159,379	3,052,978	3,178,497
Federal sources	228,858	272,939	190,579	151,031
Total	<u>\$ 8,579,266</u>	<u>7,729,422</u>	<u>6,972,848</u>	<u>6,624,426</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,738,703	2,575,286	2,704,570	2,713,419
Special instruction	889,705	821,571	946,698	882,346
Other instruction	722,381	677,104	608,756	551,333
Support services:				
Student services	253,518	250,249	239,395	223,689
Instructional staff services	328,213	296,343	256,506	247,896
Administration services	800,782	779,341	674,193	667,157
Operation and maintenance of plant services	944,385	664,386	664,676	631,774
Transportation services	468,872	503,504	470,553	404,631
Central services	0	0	1,396	930
Non-instructional programs				
Food service	2,354	2,354	3,364	3,729
Community service	3,470	10,904	20,289	14,453
Other expenditures:				
Facilities acquisitions	1,289,281	86,941	156,383	40,150
Long-term debt:				
Principal	190,000	0	0	0
Interest and fiscal charges	182,405	0	0	0
AEA flow-through	218,952	217,704	221,438	238,108
Total	<u>\$ 9,033,021</u>	<u>6,885,687</u>	<u>6,968,217</u>	<u>6,619,615</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
East Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Marshall Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

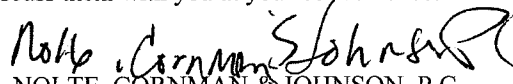
Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Marshall Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of East Marshall Community School District and other parties to whom East Marshall Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of East Marshall Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 25, 2006

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, exceeded the certified budget amounts in support services, non-instructional programs, and other expenditures area.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – We will amend the budget if necessary in the future

Conclusion – Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - No business transactions between the District and District Officials or employees were noted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.